

Approved For Release 2002/01/30 : CIA-RDP85T00875R002000150004-6

CIA/ONE/SM-4-67

NEW LOOK OF ONGANIA ADMINISTRATION

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JUNE 67

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SPECIAL MEMORANDUM

The New Look of the Onganía Administration

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28 June 1967
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C E N T R A L I N T E L L I G E N C E A G E N C Y

OFFICE OF NATIONAL ESTIMATES

28 June 1967

SPECIAL MEMORANDUM NO. 4-67

SUBJECT: The New Look of the Onganía Administration*

SUMMARY

In recent months the administration of Gen. Juan Carlos Onganía (Ret.) has made an impressive start on resolution of some of Argentina's most difficult political and economic problems. After an inauspicious beginning, Onganía has undertaken a program of economic reform which is already winning both international and domestic respect. He has responded to public criticism, improved his cabinet, and now has a highly-skilled group of economic advisers. The dimensions of the problems still ahead are large, and for many there can be no quick or painless solutions. But there are grounds for hope in the fact that Argentina, after three decades of floundering, now has a reform-minded government, both determined to govern and possessing the power to do so.

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* This memorandum has been prepared solely by CIA. It has been coordinated with the Office of Current Intelligence, the Office of Research and Reports, and the Clandestine Services.

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I. BACKGROUND

Economic Problems

1. For several decades Argentina has failed to achieve a rate of economic growth commensurate with its natural and human resources.* Since the removal of Perón in late 1955, Gross National Product (GNP) has increased at an average annual rate of less than 3 percent. Over the last five years (1962-1966), despite record harvests that spurred the economy to a growth rate of 8 percent in two successive years, the average annual rate for the period as a whole was only 1.7 percent -- about the same as the rate of population increase. The general stagnation of the economy has been accompanied by strong inflationary pressures, deriving mainly from large budget deficits caused by falling revenues and the subsidies required by increasingly inefficient state enterprises -- notably the railroads. Since 1961, annual cost of living and wage increases have averaged 27 and 31 percent respectively.

* Argentina has an extensive and fertile agricultural area and a sizable industrial base. Its homogeneous population is one of the world's best fed and clothed and the literacy rate is high (some 90%).

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2. Domestic economic problems have also been reflected in the external sector. Rising requirements for industrial imports, diminishing agricultural exports, and periodic flights of capital have produced large balance-of-payments deficits. Those deficits were financed by the accumulation of a heavy foreign debt and by the reduction of foreign exchange reserves to perilously low levels.* The restrictions on imports required to maintain foreign payments in recent years, in turn, have speeded the inflation and inhibited economic growth.

Political Problems

3. Politically, Argentina has not yet recovered from the decade of Perón (1946-1955). Many Argentines attribute virtually all their country's troubles to the deleterious effect of his dictatorship, but no government since his overthrow has been able to achieve any consensus on national goals and programs, and embody both the power and the will to govern. The Peronistas are still the most unified political force in the country; with some

* Total foreign indebtedness reached \$3.2 billion in 1963 and was gradually reduced to \$2.7 billion by the end of 1966. Gross foreign reserves, however, continued to hover about the \$200 million mark -- sufficient to cover only two months' imports -- until the devaluation in March 1967.

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35-40 percent of the electorate they would probably win any freely conducted national election and such important provincial elections as those of Buenos Aires and Córdoba. The central feature of Argentine politics since 1955 has been merely negative: the refusal of the military establishment to permit the Peronistas to recover effective political power. Meanwhile the economic and political problems of Argentina have piled up, and caused each successive government to flounder more ineffectually. Finally, in late June 1966, when the Illia administration was still struggling to get its budget for calendar and fiscal 1966 past an obstreperous Congress, the military intervened.

II. THE PRESENT ADMINISTRATION

4. Character of the Onganía Government. The Onganía government is a dictatorship whose ultimate source of power is the collective leadership of the Army. Although it has preempted all executive and legislative powers on the national and provincial levels, it has used them with restraint. The press and the judicial system function freely, and political opponents can criticize official policies and actions. Onganía and his military supporters appear determined, however, to retain power for as long as required

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to carry out their plans for the modernization of Argentina. Thus far Onganía has shown little interest in restructuring the country's political parties. Nor has he tried to create an official party to provide a facade of constitutionalism for his virtual monopoly of political power.

Performance

5. The Onganía administration started badly, with a heavy-handed effort to control disorders in the national universities. Police forces overreacted to provocation by university students, and many liberal as well as radical professors resigned, depleting some faculties of the National University of Buenos Aires. Many of these faculty members have not returned. Later actions by the government proved to be more sensible and successful: the universities are now functioning under regulations which bar political activity from the university buildings and grounds, give the faculties control over university administration and policy, and limit the role of students in university councils to that of observers. The extra-territorial status of the universities has been removed, and requirements for retaining student status have been tightened.

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6. Peronism still dominates the labor movement. When Onganía assumed power, however, the Peronist-controlled General Confederation of Labor (CGT) had split into two main factions, one of which continues to be subservient to Perón himself. The leaders of the other group maintain only a nominal loyalty to Perón apparently believing that he will never return to power. The administration has profited from this split and it has further weakened labor resistance by granting wage and other benefits to those unions which cooperate with it. On the other hand, the administration has dealt firmly with recalcitrant unions by employing police and military forces to contain illegal strikes, by taking over control of key unions and freezing their funds, and by dismissing or refusing to reemploy striking union members and leaders. Thus far, these tactics have kept the unions off balance and without an issue strong enough to bring the workers out into the streets against the government.

7. It is clear that the Onganía government assumed office with no clear idea how to go about stabilizing and modernizing the economy as promised, and its initial months were spent trying to decide upon the most effective path to follow. There were successful moves against some obvious targets for change such as

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the inefficient and costly port system, the sugar problem in Tucumán province, and drawing up new work rules for the railroads. But little progress had been made by the end of 1966 in solving basic economic problems, and inflationary pressures were stronger than before the revolution. At that point (late December), Onganía faced up to the need to change economists. He installed a new minister of Economy and Labor, Dr. Adalberto Krieger Vasena, an internationally respected economist who we believe insisted upon and received carte blanche to devise economic reforms.

8. Within three months, Dr. Krieger's new economic team drew up a broad and complex program for financial stabilization and economic development and moved quickly to introduce a wide variety of necessary -- and often unpopular -- reforms. In March of 1967 almost all restrictions on international payments and transfers were lifted. At the same time the peso was devalued by 40 percent in an attempt -- at least initially successful -- to reverse the flight of capital, encourage the development of new exports, and attract foreign investment. The government also has taken the initiative of discussing with the United States an agreement to guarantee investments, has signed

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new settlements with petroleum companies whose contracts had been annulled by the Illia administration, and has drawn up a code of laws encouraging foreign participation in the exploitation of petroleum and other mineral resources. Legislation has also been issued to stimulate domestic investment by providing tax benefits for investment in both industry and agriculture, revising the land tenure system, and liberalizing credit requirements for imports of capital equipment.*

9. The government, moreover, has taken strong measures in both the public and private sectors to combat the chronic inflation. These involve reduction of the budget deficit, freezing wages of public and private employees, and limiting the operational deficits of the public enterprises. A drive for greater efficiency throughout the government has been launched and, while large scale dismissals are being avoided, the government is preparing to transfer 150,000 surplus workers into more productive employment. To discourage the inflationary mentality of producers

* That the government already has succeeded to an impressive degree in increasing investor confidence is evident in the rejuvenation of the Buenos Aires bolsa, where after years of inactivity stock sales have zoomed and government bond issues have been widely oversubscribed.

and retailers, the government has threatened the use of price ceilings, the freeing of specific imports, and other methods of forcing reduced costs and increased efficiency, and has enacted a price control law involving particularly stiff penalties. The recent decision by the leaders of the business community to collaborate in a "voluntary" price control program indicates that they do take the government's stabilization efforts seriously.

Relations with the United States

10. The sharp contrast between the alacrity with which the US recognized the Castello Branco government in Brazil and the delay in recognizing the Onganía government raised the hackles of some of the more nationalist members of the new administration in Argentina. Onganía, however, did not react to that delay, or to unfriendly reporting by the US press, by whipping up nationalist fervor. Instead, his administration has been reasonably cooperative with the US; has stressed its anti-Communist orientation; and, at the same time, has made it clear that its policies in any field will be made in Argentina by Argentines.

11. It is easy enough for Onganía to understand the general US preference for constitutional governments brought to power in

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freely contested elections. Indeed it was he, as Commander-in-Chief of the Army, who held off military pressures against the Illia administration for some two years -- as long as he thought there was still any chance that it could accomplish even a few constructive steps toward the modernization of Argentina. But the reality of political life in Argentina has repeatedly demonstrated the inability of elected governments to achieve the modernization of the country. Onganía has suppressed much political activity but has shown more respect for civil liberties -- not connected with elections -- than have some constitutional governments in Argentina and elsewhere in Latin America. Thus far, he has benefitted from widespread disillusionment in Argentina with the traditional political parties and their leaders, and there has been no effective political opposition to his government.

III. PROSPECTS

12. When the Onganía administration took power Argentina's prospects appeared bleak indeed. But the demonstrated ability of that military dictatorship to respond to constructive criticism is now one of the hopeful aspects of the Argentine situation.

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Moreover its courage in taking the politically unpopular actions necessary to implement its stabilization programs appears to have won the confidence of important elements of the country's business and financial community and of foreign observers as well.* When the present situation is compared with that of a year ago, we believe it is clear that a corner has been turned and that the government is now making noteworthy progress on the task confronting it.

13. Onganía's further progress will also depend heavily upon maintaining the support of key military leaders and keeping control over organized labor. Although the basic antagonism between leaders of the anti-Peronist military and of Peronist labor makes the administration's relationship with each of these elements a very tricky one, Onganía can also use that antagonism to his advantage. Thus labor recalcitrance, late last year and early this year, brought a closing of ranks in the military behind Onganía. While indications of personal rivalry among ambitious

* In recent weeks the Onganía administration has received \$125 million from the International Monetary Fund, \$75 million from the US Treasury Stabilization Fund, and two loans of \$100 million each from European and US banks, both of which were oversubscribed.

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military leaders persist, they have diminished sharply since Onganía began to take action on basic economic problems and showed that, at least in the short run, he could deal effectively with labor.

14. This is not to say that an end to Argentina's prolonged time of troubles is at hand. Much still needs to be done in the economic sphere, and there are key factors such as weather and world market prices which are beyond Onganía's control. At the same time the administration must maintain its successful record in dealing with the military leadership and organized labor. For it is in these delicate fields of military and labor relations that there is still the greatest danger of some slip up by the administration which could lead to its undoing.

15. The combination of continued strong military support, control over organized labor, bumper harvests, and favorable world market prices may all fall neatly into place. In that event the chances would be excellent for Onganía staying the course and restoring the Argentine economy to reasonable levels of performance. There is, however, no realistic way of totting up the odds on such a combination. And there is still the danger that as a result of miscalculation by the administration

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or the opposition Onganía and his military supporters might become much more authoritarian in their treatment of the opposition. Nevertheless, we conclude that under the present government there is more reason to be optimistic, as to both the short and longer-run future of Argentina, than there has been at any other time in the last three decades of Argentine history.

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